With reforms absent in financial reform bill, report recommends overhaul of failed Federal Regulator

WASHINGTON D.C. – House Oversight and Government Reform Committee Ranking Member Darrell Issa today released a report describing systemic problems at the Securities and Exchange Commission (SEC) and recommending reforms, which are not included in financial reform legislation being considered by the Senate.

"This report reviews a myriad of problems at the SEC that crippled the agency's ability to protect investors and the American economy," said Rep. Issa. "To put our economy back on track, Congress and the Administration must work together to fix broken government agencies like the SEC, instead of enacting measures against businesses that hurt job growth and institutionalize bailouts."

Findings of the Report include:

- The Commission's securities disclosure processes are technologically backward. It reviews corporate filings manually, using printouts, pencils, and calculators. It has never developed the ability to perform large-scale quantitative analysis to find fraud. Commission staff use Google Finance, Yahoo! Finance, and other commercially-available resources to analyze corporate filings. If the Commission had a robust database of the financial information filed by its registrants, it could automatically prioritize the thousands of tips and complaints it receives. But no such database has ever been constructed.

- Auditors, journalists, and academics – not Commission investigators – have led the pursuit of the highest-profile frauds, including Enron and Worldcom. In addition to problems detecting fraud and reporting failures in the companies it regulates, the Commission has struggled to govern itself, and failed to implement reforms recommended by the GAO and its own Inspector General.

- Despite a budget that nearly tripled between 2000 and 2010, the Commission's current Chairman and senior staff have argued that its recent failures can be addressed by increasing the agency's funding. The Commission's regulatory and management failures, however, are caused by systemic structural and cultural problems, not lack of funding.

- The Commission suffers from an acute "silo problem," which has been admitted by former Chairmen, current and former commissioners, senior staff, and the SEC Inspector General. The Commission is divided into five operating divisions and sixteen independent offices – all but three reporting directly to the Chairman. The Commission's fragmentation into operational silos has devastating effects on collaboration, encourages uninformed rulemaking, prevents effective IT investment, and generates bureaucratic rivalries.

Click here for a copy of the report: SEC: Designed for Failure

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